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AMAZON OIL ROW: US-Ecuador Ties Influence Chevron Amazon Dispute

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(This is the second of a three-part series that examines a legal dispute between oil company [Chevron Corp.](#) and indigenous groups in Ecuador over who's to blame for polluting the country's Amazon jungle decades ago.)

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QUITO (Dow Jones)--Though rooted in the legal system, the long-running dispute between [Chevron Corp.](#) (CVX) and indigenous groups over responsibility for pollution in Ecuador's Amazon jungle has been heavily influenced by political tides.

Thousands are suing the energy giant, of San Ramon, Calif., which is accused of environmental contamination caused by [Texaco](#), a company [Chevron](#) purchased in 2001. [Texaco](#) began producing oil in northern Ecuador soon after discovering it in 1967. Over time the company partnered with Ecuador's state-owned oil company, [Petroecuador](#), before exiting the country in 1992.

Most recently, an expert appointed by a court in Ecuador concluded [Chevron](#) should pay up to \$16 billion in damages and penalties. [Chevron](#), which contends it's being unfairly blamed, has until September to challenge this recommendation.

The report is something [Chevron](#) probably never expected after it fought hard in the 1990s to have the case removed from a court in New York and sent to Ecuador. Back then, the government of Ecuador was still a close ally of the U.S. But as Ecuador has undergone several regime changes amid growing anti-Americanism in Latin America, the case isn't progressing favorably for [Chevron](#).

The U.S. oil giant left Ecuador in 1992, turning all of its operations over to [Petroecuador](#), which still produces oil in Ecuador's Amazon region. A year after [Texaco](#) left the country, a group of residents sued the company, claiming its practices had wrecked their environment and contending the local community has high rates of cancer and infant mortality due to the pollution.

In the 1990s, when the case was heard in New York, the indigenous group contended that Ecuador's courts were corrupt, inefficient and influenced by pro-American politics. They also argued that Ecuador's military, which had ruled the country through the 1970s, could interfere in favor of [Texaco](#) if the case was heard in Ecuador, according to a 1994 court filing. But U.S. courts sided with [Texaco](#), which said Ecuadorian courts were the best place for the case, court documents show.

[Chevron](#) is now backpedaling and hoping a U.S. court will some day disqualify the process in Ecuador. Indigenous activists, meanwhile, take pride in the job Ecuador's courts have done and President Rafael Correa, who opposes a free trade pact with the U.S., is using the court fight as a nationalistic rallying point.

"We will be more than happy to come to a real court in the U.S. and expose the case's irregularities," said Rodrigo Perez, [Texaco](#)'s legal representative in Ecuador.

Battles Become Harder

Protracted legal battles are nothing new for energy companies, who in their search for hydrocarbons bump up against governments empowered by oil wealth. It was just in June that the U.S. Supreme Court ruled on the 1989 Exxon Valdez oil tanker disaster, which spilled millions of gallons of oil into Alaska's Prince William sound 19 years ago in one of the largest environmental accidents in U.S. history.

But as concerns about environmental sustainability grow more prominent and developing countries assert their rights, oil companies may find that their battles become harder and more expensive to fight. Observers say Exxon Mobil Corp. (XOM) was lucky when the Supreme Court reduced punitive damages for the spill from \$2.5 billion to \$507 million.

"What we are seeing now is a collision between a much higher level of political and social sensibilities and older legal regimes," said Sheldon Leader, law professor at the University of Essex in the U.K. "This has made companies like Chevron potentially liable under local laws."

Whether the pollution is as serious as local residents say is a matter of debate that intensified when President Correa stood on the edge of a polluted pit last year and proclaimed to a gathering of journalists that the weight of his government would be behind those suing the American company.

"Although the government can't interfere in the judicial matter, we totally support the claim of our compatriots," said Correa. "The world needs to know what this company (Texaco) did."

Correa was elected in 2006 after more than a decade of instability in this small Andean nation, which has had 10 presidents in the past 11 years - three of whom were overthrown by popular uprisings. The country faced a severe economic crisis in 2000, when the local currency was replaced with the dollar. Ecuador has since transformed itself from a U.S.-friendly, free-trade welcoming nation into one with a populist bent.

Correa, as his ally Venezuela President Hugo Chavez has already done, is working to strengthen the state's grip on natural resources. He is renegotiating the terms of exploitation contracts with international oil companies to include more governmental control.

In the latest sign of deteriorating relations with the U.S., the Ecuadorean government on July 30 officially notified the U.S. Embassy in Quito of its decision to terminate an agreement that allows the U.S. military to use a base in the Andean nation for anti-drug operations. Correa argued the base, the location of which was negotiated in 1999 with then-President Jamil Mahuad, compromises Ecuador's sovereignty.

Chevron is using Correa's remarks and other turns in the litigation to denounce the legal process, which the company says has been rendered a "farce" by Ecuador's ever-changing political landscape. Indigenous groups dismiss these criticisms of Ecuador's judicial system, but some observers don't.

"Judges fear ruling in any way that could be seen as going against Correa," said Arturo Torres, editor of the judicial section of El Comercio, an independent Ecuadorian newspaper. "They know they can lose their position and that they can be called traitor to the country."

Presiding Judges Changing

Judge **Efrain Novillo**, the latest of three judges to preside over the case since it was filed in 2003, said he hasn't felt pressure.

"For us, what the press and public opinion say doesn't exist," Novillo said in an interview in his office located in a small office building in Lago Agrio, an oil town in northern Ecuador where the case is being heard. "And whatever other authorities say is just an opinion."

Novillo won't likely be the judge who issues a ruling as the case will soon shift to yet another colleague, but his current actions could significantly weigh in the process.

In Ecuador, there are no juries or courtrooms. Witness testimony and evidence are submitted in writing for a judge to read and evaluate privately. Further complicating matters, under Ecuador's law, judges are changed regularly.

"The court, despite being Ecuadorian, has the freedom to resolve according to what the judge considers is fair," said Ecuador's Attorney General Diego Garcia. But he added the Correa administration's position on the case is clear: "The pollution is result of Chevron's actions and not of Petroecuador."

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